



Shell Canada Limited
400 - 4th Avenue S W
P.O. Box 100, Station M
Calgary, Alberta T2P 2H5
Tel (403) 691-3111
Internet www.shell.ca

25 June 2008

Darlene Harris
Pension Manager- Canada
Shell Canada Limited

Pension Review Panel
c/o Nova Scotia Labour and Workforce Development
Policy Division
PO Box 697
Halifax, NS B3F 2T8

Subject: Nova Scotia Pension Review Panel – Discussion Paper, May 28, 2008

Introduction

Shell Canada Limited is headquartered in Calgary and is one of the largest integrated petroleum companies in Canada with approximately 6,000 Canadian employees who participate in one of the formal company sponsored pension arrangements. There are employees in several provinces including Nova Scotia.

Upon reading and analysing the discussion paper released on May 28, Shell is pleased to make a submission to the Pension Review Panel. While this submission is not intended to be comprehensive in responding to each of the questions posed in the paper, the response addresses the critical issues raised by the paper that resonated with Shell.

The numerical headings that follow are those used in the discussion paper.

3. Goals of Pension Legislation

In addition to the goals listed in Section 3 of the discussion paper, we believe that pension legislation should encourage the establishment of pension plans by promoting a fairer balance of risks and rewards for plan sponsors. The establishment of pension plans is voluntary and wider participation in employer sponsored pension plans will result if the administrative burden is reduced and, for defined benefit plans, financial risks do not outweigh the potential rewards. Further comments are given below.

4.1 DB versus DC Plans

Shell currently offers a combination of DB and DC pension arrangements. New hires are offered DC provisions, while employees who meet certain age/service criteria are entitled to a combination of DB and DC provisions. In recent years, Shell has confirmed a preference for a DB pension component as a key element of employee retention strategy. A further administrative burden and/or more onerous funding rules for DB pensions may lead to a different decision in the future. In our view, pension legislation should not act to limit the range of viable options open to plan sponsors, including DB pension provisions, DC or a combination thereof.

4.2 Pension Plan Funding

The solvency valuation currently assumes a method of settlement for retirees and members eligible to retire by annuity purchase. We would like the legislation to allow other methods of settlement. The reason for this request is that one of our plans provides guaranteed post retirement indexing based on the CPI. Currently this requires the plan to fund for solvency purposes on an annuity purchase basis that does not exist.

One option we would see as viable would be to allow full commuted value payment as an option for settlement on plan wind-up to retirees. This would lead to more meaningful results in the solvency valuation. Another option that would address the annuity purchase issue would be to allow settlement of the base annuity at a non-indexed annuity purchase rate and then settle the indexed portion of that annuity as a lump sum.

4.3 Surplus Ownership

In the current environment of single-employer plans, deficiencies are the responsibility of the employer while surpluses are often shared or dedicated exclusively to plan members. Even though most employers can take contribution holidays when there is a funding surplus, the potential for asset distribution triggered by the existence of a solvency surplus at the date of a wind-up or even partial plan wind-up is a significant problem. It makes poor economic sense for a business to make large contributions that may later become a solvency surplus that may be paid out of the plan. It is our fundamental belief that the entity that bears the funding risk should have all rights to surplus on plan wind-up and have a clear right to take contribution holidays. We believe that this system would encourage employers to fund above minimums and allow employers to justify the cost of providing defined benefit pensions to their employees.

As discussed above we believe that there should be statutory provisions that presume sponsor entitlement to surplus upon plan wind-up. If this can not be accomplished, we would like to see the legislation clarify who owns the surplus and how it should be distributed upon plan wind-up.

Further, we believe that the concept of partial plan wind-up should be eliminated, similar to the approach adopted in the Quebec legislation. If the elimination of the concept of partial plan wind-up can not be accomplished, the legislation should clarify that there is no requirement to transfer or distribute surplus on a partial plan wind-up.

In addition, the legislation should ensure that there is no requirement to transfer surplus in business transactions.

It is our view that the pension promise between employer and employee is part of the employment contract. We believe that pension legislation should be amended to remove the application of classic trust law principles in the pension context. These amendments could recognize the applicability of contract law in the creation, operation and regulation of pension plans or, as a minimum, clarify areas within legislation that would limit the need to resort to the application of trust law principles. Specifically these areas would include: the right to surplus both on an ongoing basis and at the time of plan termination, the ability to pay reasonable plan expenses from the fund, and the establishment of definable rules on plan mergers and asset transfers.

4.6 Harmonization

It would be our wish that one day uniform pension legislation would exist across Canada. This view is shared by other plan sponsors with employees across Canada. Unfortunately the reality of the political environment and the relatively low profile of pension matters make this wish far from a short term reality. We would like to see this initiative given more priority and attention; however, it is imperative that changes be made to the regulatory system that re-establish fairness for sponsors of defined benefit plans. Such changes should take precedence over harmonization objectives.

We would like to see the administrative requirements involved in running a pension plan be simple and affordable. It is our belief that the current system places a significant annual burden on employers involved in running a pension plan. Some specific suggestions that would reduce some of the burden include:

- harmonization of minimum benefits and options for employees across the provinces;
- employer right to force out terminated members; and
- simplification of marriage breakdown requirements and ability to charge full costs.

5.1 “Safe Harbour” Rules

We believe that safe harbour rules for DC Plans that are principles-based (as opposed to the highly prescriptive rules based US legislation) should be adopted in Canada.

DC plans are an important element of the Canadian pension system. There is wide disagreement on the degree of financial literacy amongst DC participants. But, nonetheless, there is agreement that some plan participants will make sub-optimal decisions. For those employers who would like to improve the likelihood of members making financially sound decisions, it would be beneficial for regulators to deal with the following:

- eliminate roadblocks to automatic enrolment;
- ensure that electronic communication, where appropriate, is a viable and protected alternative for plan sponsors to inform plan members;

- provide employers principles-based guidance on what kinds of auto-enrolment and contribution escalation features would be protected under safe harbour legislation; and,
- provide employers principles-based guidance on acceptable notice periods for employees to opt out of default positions.

Thank you for allowing us the opportunity to comment on your paper. We look forward to hearing from you in the future after you have had the opportunity to review all of the submissions.

Sincerely,

Darlene Harris
Pension Manager
Shell Canada Limited